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THE BEEF CATTLE SITUATION

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The most significant indication of the current situation in the cattle industry is, of course, the prevailing level of cattle prices, especially when such prices are compared with the prices of other commodities. Since beef cattle are now listed as a basic commodity under the Agricultural Adjustment Act, it is of value in sizing up the cattle situation to first determine the relation of cattle prices to the fair exchange value as defined in the Act, which is better known as "parity price". This comparison is shown in Figure I. The broken line shown in the Chart represents the farm price of cattle that would have prevailed throughout the period since 1910 if such prices had maintained the same relation to prices of commodities bought by farmers that existed during the pre-war period 1910-1914. This price line represents the fair exchange value or parity price for cattle. The solid line, on the other hand, shows the actual farm price of cattle during this 24-year period. It may be observed on the Chart that immediately following the war, cattle prices declined to a level considerably below the parity price and although the relationship improved somewhat during the next few years, cattle prices have been above parity in only two years since the war. These years were 1928 and 1929 when we were not only experiencing unprecedented levels of business activity and consumer incomes but also when the slaughter supply of cattle and calves was relatively small. Since 1929 the decline in cattle prices has been relatively much greater than the decline in the parity price, and in 1933 the average farm price of cattle was $2.05 below parity. Much of the disparity that developed during this period was the result of a change in

the relationship between the supply of non-agricultural commodities and the slaughter supply of cattle. The production of the former was sharply curtailed during this period, whereas cattle slaughter continued at about the same level.

The cattle producer who has, either through very good management, extremely good fortune, or both, managed to continue his operations through the ups and downs of the cattle business since the beginning of the present century has seen only two major periods when prices of all kinds of cattle were high in relation to prices of other commodities. The first period was from about 1913 to 1915 when, as you will observe on the chart, cattle prices were substantially above parity; the second was in 1928 and 1929. Cattle prices were extremely high during the World War, but so were prices of other commodities. Thus the cattleman had no particular advantage over others during that period.

This same veteran cattle producer can no doubt remember equally as well the three periods of extremely low cattle prices that have occurred since 1900. The first was about 1905; the second was immediately following the World War, and the third is the one in which we find ourselves today. Although a good many factors have contributed to these alternating periods of relatively low prices and high prices, the most significant feature has been the cycles in cattle production with which you are all familiar. Three of these major swings of increasing and decreasing cattle numbers have occurred with distinct regularity since 1880. These cycles were from 1880 to 1896, 1896 to 1912, and 1912 to 1928. Each cycle was 16 years in length. The characteristic development of a production cycle is for cattle numbers to gradually increase for six or seven years, after which market supplies become burdensome and prices reach a low level. Producers then begin

curtailing their production by selling off old cows and by not retaining so many heifers for replacing the old cows in the herds. This results in 7 or 8 years of declining numbers. When the reduction in production is reflected in smaller marketings and higher prices, producers become optimistic and the procedure is repeated again.

The reason for emphasizing this tendency for production to move in cycles is that an important difficulty in the cattle situation today is due to our present position in the cattle production cycle. The industry has reached that point in the cycle where numbers must be reduced to put cattle production on a profitable basis once more, and the customary method of reduction means heavy liquidation and continued low prices for a few years. Production has been increasing steadily since 1928, and in the 6-year period, numbers on farms as of the first of the year have increased from 57,000,000 to more than 67,000,000 head. This is an increase of 10,651,000 head or nearly 20 percent. An important difference between the current cycle and previous cycles is that in previous cycles slaughter supplies reached the low point in either the second or third year after numbers reached their low point. This time cattle slaughter did not begin to increase until 1933 - 5 years after the increase in numbers. It has been only in the last 12 months that slaughter has been consistently larger than a year earlier. The business depression and consequent decline in consumer incomes is primarily responsible for this unusually long lag between slaughter and numbers on farms. Most of the time since 1930, prices of low grade cows have been so low that producers have preferred to hold them back on the farm and range for continued production of calves or dairy products rather than to dispose of them at such unfavorable prices, which in some instances were too low to defray marketing and transportation

costs. This has greatly accentuated the increase in total cattle numbers, and especially the potential producing capacity of the national cattle supply.

Of the increase of 10,651,000 cattle on farms January 1, from 1928 to 1934, nearly 6,000,000 was in cows and heifers. Of the total increase in cow and heifer numbers nearly 4,000,000 has been in milk cows and nearly 2,000,000 in cows and heifers not kept for milk. Of course, a substantial number of the 26,000,000 cows on farms January 1 this year that were reported as being kept for milk could and probably would be used primarily for beef production if prices should furnish an incentive for such a shift. Steers have been marketed at about the same rate as they have been produced during recent years and there has been little change in numbers on farms the first of the year during the 6-year period. Most all of the increase in total cattle numbers has been in cows and calves.

If no program is developed to change the trend of cattle production, total cattle numbers are likely to continue to increase for another year or two, and slaughter supplies of both cattle and calves will likewise continue the increase that is now under way. An indication of the probable proportion of cows and steers in the slaughter supply during the next few years can be obtained from a study of Figure 2. Slaughter of both cows and steers increased from 1921 to 1926, but the increase in cow slaughter was much greater. From 1926, when total slaughter reached the peak of the liquidation period following the war, to 1932, cow slaughter declined much more than steer slaughter, and the upturn in 1933 was also much greater. It is reasonable to expect an increase in cow slaughter during

the next few years even more marked than the increase which occurred from 1921 to 1926, and for steer slaughter to increase, but at a more gradual rate. The sharp increase in slaughter during recent months is merely an indicator of what is ahead.

Total slaughter of cattle and calves amounted to about 22,300,000 head in 1933, and the average for the last 6 years has been about 21,000,000 head. If cattle numbers were only maintained at present levels during the next few years, the yearly cattle and calf slaughter would total about 24,500,000 head. There have been only 3 years on record when slaughter has reached that level. (Figure 3)

Changes in cattle numbers in the various regions of the country are shown in Figures 4 and 5. Most of the increase in cattle numbers since 1928 has occurred in the North Central States and in the Western States (including Oklahoma and Texas). In the North Central States, beef cattle numbers have increased 32 percent, and numbers of milk stock have increased 17 percent. In the Western States the increase in beef and milk stock has been about 24 percent and 19 percent, respectively. The number of beef cattle in the North Central States on January 1 was almost as large as the number in the Western States. There has been some increase in cattle kept for milk in the Southern States but those kept for beef have declined. In the North Atlantic States there has been but little change in both beef and dairy cattle.

In formulating an adjustment program for the cattle industry, it is necessary to recognize that while adjustments in production are greatly needed at the present time, it is not the only way in which incomes to cattle producers may be increased during the next few years. Experience of the last few years has illustrated all too clearly that general business

conditions and the incomes of consumers have a very important influence on prices received for cattle. The figure (Figure 6) showing the relation of the retail value of beef consumed to consumer incomes in the United States, shows that when consumer incomes dropped nearly 50 percent from 1928 to 1933, total consumer expenditures for beef dropped almost the same percentage. A substantial increase in consumer incomes must occur before total returns to cattle producers will be improved sufficiently to restore prosperity to the industry. In fact, recovery in the income from cattle depends more upon the restoration of full employment and increased income to industrial workers than any other single factor. Within the limits established by the buying power of urban consumers, however, returns to cattle producers are substantially affected by market supplies. Unless the excessive supply of breeding stock is disposed of, any rise in cattle prices resulting from a present sharp improvement in general economic conditions, will fall far short of keeping pace with the rise in the general level of commodity prices. This was demonstrated in the early post-war years when liquidation of supplies kept the cattle situation unfavorable, despite the sharp improvement in demand during that period.

International trade in cattle and cattle products is relatively unimportant in the present cattle situation. There has been but very little export outlet for either live cattle or beef since before the World War. Returns to cattle producers are affected to a limited degree by imports of live cattle, canned beef, hides, and fats and oils. Imports of live cattle have varied from time to time, but they have always been a relatively small proportion of our total supply. Cattle imports in 1933 amounted to only 80,000 head, 90 percent of which were feeder cattle from

Mexico. Imports of canned beef during 1933 totaled around 43,000,000 pounds. Assuming that about 20 pounds of canned beef is produced from 100 pounds of live cattle, the 1933 imports of canned beef were equivalent to about 226,000 head of cattle of average slaughter weight or about 1.7 percent of our total cattle slaughter last year. Argentina and Uruguay are the most important surplus beef producing countries. Live cattle and chilled and frozen beef from South American countries are prohibited entry into this country under existing regulations. Canned beef is subject to an import duty of 6 cents per pound.

As for market supplies in the immediate future, present prospects are for continued large total marketings of cattle and calves during the remainder of the year. During the first quarter of the year inspected cattle slaughter was the largest for that period of the year since 1919 and was the third largest on record. Inspected slaughter of calves from January to March, inclusive, was the largest for the period on record and 36 percent above that of a year earlier.

It is estimated that the spring movement of cattle from the Southwest (Texas, New Mexico and Arizona) will be about 5 to 10 percent larger than last spring. Marketings of cows during the remainder of 1934 are expected to continue well above those of a year ago. Although total marketings of cattle are expected to continue large, supplies of well-finished cattle probably will be considerably smaller than in the corresponding period of last year. The estimated number of cattle on feed in 11 Corn-Belt States on April 1 was 12 percent less than the number on feed on the same date in 1933. The smaller number on feed this year is to a considerable extent a reflection of the greatly reduced available supplies of corn and relatively high corn prices compared with cattle prices. In view of the supply situation, a further advance in prices of the better grades of slaughter

cattle is likely to occur this year, but unless an emergency marketing program is put into effect there is little prospect for material improvement in prices of the lower grades of slaughter cattle and of calves. Because of the rather distinct demand for the better grades of beef from that of the lower grades, the spread between prices of the lower and better grades of cattle is affected materially by the relative supplies of each. The most important factor affecting the market supply of grain fed cattle during the summer and fall in relation to the supply of other kinds of cattle at that time is the supply and price of corn and other feeds in the Corn Belt. For example, in 1926 and 1933 when there was an abundant supply of corn which could be bought at prices which were low in relation to cattle prices, cattle feeding was stimulated, and as a result the burdensome supplies of well-finished beef reduced materially the spread between prices of the lower and higher grades of cattle. The situation in these years is in contrast to that in 1925 when as a result of the short 1924 corn crop, cattle feeding was reduced and the price of good and choice beef steers advanced to an unusually high level in relation to prices of other grades. The 1934 grain-fed cattle situation, with respect to feed supplies and prices, is similar to that in 1925.

In summing up the cattle situation, the principal problem confronting the industry at the present time, from the standpoint of supplies, is an accumulation of breeding stock on farms which, if only maintained, would produce record beef supplies. Liquidation of surplus cows would no doubt occur in the next few years, regardless of an adjustment program, but it would mean a further increase to an already burdensome slaughter supply. It is apparent, therefore, that the economic position of the industry will be improved materially if breeding herds are adjusted to a substantially